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## US/China Regulatory Dispute Intensifies

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Companies with operations in China, and their audit committees, should keep an eye on the dispute between securities and accounting regulators in the United States and China. Recently, the Securities and Exchange Commission [sued five Chinese accounting firms](#) (all associated with global accounting networks) for failing to produce documents related to SEC investigations of Chinese companies listed in the US. Meanwhile, members of the Public Company Accounting Oversight Board have expressed frustration about the PCAOB's inability to inspect Chinese registered public accounting firms that audit Chinese companies listed in the US. Both the SEC's and the PCAOB's efforts have been impeded by their inability to reach satisfactory cooperation agreements with the China Securities Regulatory Commission. China, for its part, has objected to disclosure of documents to US regulators and inspection of China-based accounting firms on sovereignty and state secrecy grounds.

The SEC's lawsuit seeks sanctions against the firms under its Rule 102(e), which can include barring the firms from auditing financial statements of US issuers. Members of the PCAOB have also implied that the PCAOB may take regulatory action against Chinese firms if the Board is unable to inspect those firm as required by the Sarbanes-Oxley Act; this could include deregistering the firms or other restrictions on their activities. Any sanction by the SEC or the PCAOB can only be imposed after an adjudicatory proceeding, and the agencies have substantial discretion in deciding what sanctions to impose. It is important to bear in mind, however, that such sanctions could do more than just prevent Chinese accounting firms from issuing audit reports on Chinese companies listed in the United States and cause the delisting of such companies in the US. The sanctions could, depending on their nature and scope, also create problems for auditors of US companies who must rely on Chinese accounting firms to audit, or perform audit procedures relating to, financial statements of the Chinese operations of the US companies.